

NSC review completed

U.S. DOMESTIC POLICIES

ISSUE

A number of U.S. domestic policies are of concern to the European Community because of the actual or potential impact on their interests. To put U.S.-EC economic relations in context, a partial list of such U.S. policies is presented in the background section.

BACKGROUND

1. Fiscal, monetary, and exchange intervention. See separate paper covering these issues.

2. Potential protectionist legislation being considered by Congress:

A) Local content regulations on motor vehicles sold in the United States. The bill would impose minimum levels of U.S. content (escalating with number of sales by manufacturer). The bill would sharply reduce Volkswagen sales in the United States. The Administration is firmly opposed to the bill, but it has over 200 co-sponsors in the House and has been favorably reported by a subcommittee.

B) Reciprocity. The Administration has obtained changes in the bill to make it acceptable, but the EC is still concerned that its tone is belligerent and that it gives the President new retaliatory authority.

C) Imports of works by U.S. authors. The Congress has passed an extension of existing law that in effect prohibits imports of works published abroad that are written by U.S. nationals. The Presidential veto of this legislation should reassure the EC, although it is still concerned that the veto might be overridden.

3. Gas Deregulation. The EC has long criticized U.S. regulation of natural gas prices on trade and energy grounds. On trade, the EC argued that artificially-low natural gas and oil prices gave U.S. producers of man-made fibers and chemicals an unfair cost advantage which resulted in U.S. exports to Europe displacing EC production. U.S. exports have, however, declined recently, quieting the issue. On the energy side, the EC has argued that price controls discourage increased gas production in the United States -- while at the same time the U.S. opposes the EC becoming increasingly dependent on the Soviets for gas.

4. Agricultural policies. The EC believes its sales of cheeses are limited by U.S. import quotas, and is concerned that the current U.S. support price for milk is stimulating surplus

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production that might be moved into world markets with subsidies. The Administration is working on legislation to reduce dairy price supports. The EC has also expressed its intention to complain in the GATT about U.S. import quotas and fees on sugar. The quotas protect U.S. price supports, which were recently increased, while world prices have fallen sharply, due in part to subsidized EC exports.

5. State "Buy American" policies. Many states are considering bills that would give a preference to U.S. products, especially steel, in procurement by the state governments. The Administration has sent letters to governors and state legislatures opposing such legislation.

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